West Shore Medical Center

Financial Report
June 30, 2008

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West Shore Medical Center

Contents

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Independent Auditor's Report

To the Board of Trustees
West Shore Medical Center

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of West Shore Medical Center (the "Center") as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented components units of West Shore Medical Center at June 30, 2008 and 2007 and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and, accordingly, do not express an opinion thereon.

Plante & Moran, PLLC

September 22, 2008

This discussion and analysis of West Shore Medical Center's (the "Center") financial statements provides an overview of financial activities for the years ended June 30, 2008, 2007, and 2006. Management is responsible for the completeness and fairness of the financial statements, the related footnote disclosures, and this discussion and analysis.

Using this Annual Report

The Center's financial statements consist of three statements - a balance sheet, a statement of revenue, expenses, and changes in net assets (deficit), and a statement of cash flows. These financial statements and related notes provide information about the business-type activities of the Center including resources held by the Center but restricted for specific purposes by contributors, grantors, or enabling legislation. In accordance with *Government Accounting Standards*, the following report provides details on the overall financial results and conditions of the Center, the primary governmental entity. In addition to the Center's financial position and financial operating results, additional information is included in the finanicial statements for the Center's two component units, West Shore Health Centers Corporation (WSHCC), which maintains and operates various healthcare clinics and physician offices in the surrounding area, and West Shore Healthcare Foundation (the "Foundation"), which has been established to solicit contributions from the general public for support of the Center. Discussion on these two component units is included near the end of the management's discussion and analysis report.

Financial Overview

The Center's overall financial condition remained relatively stable from 2006 through 2008. During 2008, the Center contributed $1.4 million to WSHCC and received $426,500 from the Foundation. During 2007, the Center contributed $1.3 million to WSHCC and received $45,000 from the Foundation. Net assets increased $1.2 million in 2008, from $28.1 million to $29.3 million (4.3 percent increase), decreased $1.1 million in 2007 (3.6 percent decrease), and increased $50,000 in 2006 (0.2 percent increase). Total cash and investments, including those limited as to use, decreased from $23.4 million in 2007 to $17.8 million in 2008 (23.9 percent decrease) as the Center used bond funds during 2008 to fund its renovation and contruction project. Total cash and investments, including those limited as to use, increased from $18.1 million in 2006 to $23.4 million in 2007 (29.1 percent increase) due to the issuing of these bonds for the renovation and construction project that were not expended as of June 30, 2007.

Net assets invested in capital assets, net of incurred debt obligations, totaled $11.5 million, $6.7 million and $9.5 million in fiscal years 2008, 2007, and 2006, respectively. In fiscal year 2007, long-term debt of $10 million was acquired for financing of construction and renovations and for major equipment acquisitions. No debt was required in 2008 or 2006 for the financing of capital assets.

As mentioned above, during 2008, the Center contributed $1.4 million to WSHCC and received $426,500 from the Foundation. Changes in net assets were due to the following (in thousands):

	Year Ended June 30		
	2008	2007	2006
Income (loss) from operations	$ 1,556	$ (210)	$ (267)
Nonoperating income - Net	552	380	163
Contributions to WSHCC	(1,400)	(1,358)	-
Contributions from Foundation	427	45	-
Restricted contributions and other	69	87	154
Increase in net assets	**$ 1,204**	**$ (1,056)**	**$ 50**

Net assets by classification for fiscal years 2008, 2007, and 2006 were as follows (in thousands):

	Year Ended June 30		
	2008	2007	2006
Invested in capital assets - Net of related debt	$ 11,508	$ 6,722	$ 9,531
Restricted	105	163	137
Unrestricted	17,642	21,166	19,439
Total net assets	**$ 29,255**	**$ 28,051**	**$ 29,107**

Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

The balance sheet and the statement of revenues, expenses, and changes in net assets (deficit) report information on the Center (and its component units) as a whole and on its activities in a manner that helps present changes in its overall financial condition and operating performance.

These two statements taken together report the Center's net assets and changes thereto from year to year, thus reflecting the financial health of the Center. Many other factors should also be considered to assess the overall health of the Center such as trends in patient days, outpatient visits, reimbursement levels, conditions of facilities, and strength of medical staff.

The statements include all assets and liabilities using the accrual basis of accounting. Revenue and expenses are recognized and accounted for regardless of when cash is received or paid.

Condensed Financial Information

The following is a comparative analysis of the major components of the Center's balance sheet for fiscal years 2008, 2007, and 2006 (in thousands):

	Year Ended June 30		
	2008	2007	2006
Assets			
Current assets	$ 15,319	$ 21,118	$ 24,228
Noncurrent assets	11,984	9,947	1,256
Capital assets	30,918	26,657	20,041
Total assets	**$ 58,221**	**$ 57,722**	**$ 45,525**
Liabilities			
Current liabilities	$ 9,536	$ 9,669	$ 6,353
Long-term liabilities	19,430	20,002	10,065
Total liabilities	**$ 28,966**	**$ 29,671**	**$ 16,418**
Net Assets			
Invested in capital assets - Net of debt	$ 11,508	$ 6,722	$ 9,531
Restricted assets	105	163	137
Unrestricted	17,642	21,166	19,439
Total net assets	**$ 29,255**	**$ 28,051**	**$ 29,107**

Changes to total assets from 2007 to 2008 were minimal, with a shift from current to noncurrent assets relating to additional long-term investments and to capital assets due to completion of the renovation and construction project. Current liabilities decreased due to the timing of payments to contractors and settlements with third-party payors, offset by an increase in pension liabilities. Pension contributions for calendar year 2007 were made in July 2008. Long-term liabilities decreased in accordance with established retirement schedules.

The primary changes to assets from 2006 to 2007 were a shift from short- to long-term investments, the addition of long-term investments, a decreased Blue Cross cost report receivable, and additions of property and equipment related to construction. Long-term debt increased due to proceeds of the Series 2006 and 2007 bonds.

Operating Results for the Year

A comparative summary of the Center's operating results for the years ended June 30, 2008, 2007, and 2006 is as follows (in thousands):

	Year Ended June 30		
	2008	2007	2006
Operating Revenues			
Net patient service revenue	$ 39,596	$ 36,149	$ 33,646
Other	1,173	1,089	1,215
Total operating revenues	40,769	37,238	34,861
Operating Expenses			
Salaries	16,912	16,217	14,358
Benefits	4,994	4,634	4,644
Supplies	5,028	4,659	4,177
Outside services	5,527	6,162	5,558
Depreciation	2,969	2,496	2,646
Other	3,783	3,280	3,745
Total operating expenses	39,213	37,448	35,128
Income (Loss) from Operations	1,556	(210)	(267)
Nonoperating Income - Net	552	380	163
Excess of Revenues Over (Under) Expenses	2,108	170	(104)
Contribution to WSHCC	(1,400)	(1,358)	-
Contribution from Foundation	427	45	-
Restricted Contributions and Other	69	87	154
Increase (Decrease) in Net Assets	1,204	(1,056)	50
Net Assets - Beginning of year	28,051	29,107	29,057
Net Assets - End of year	**$ 29,255**	**$ 28,051**	**$ 29,107**

Operating Revenue

Operating revenue includes all transactions from healthcare and related service activity such as inpatient stays, outpatient visits, and physician office rentals. In addition, certain state and private grants are operating in nature if they are not for capital purposes.

Operating revenue changes were a result of the following factors:

- In 2008, gross charges for patient services grew 3.3 percent from $87.7 million in fiscal year 2007 to $90.6 million, due to price increases of 3.5 percent and outpatient growth, offset by a reduction in inpatient activity. Inpatient admissions decreased .8 percent (from 1,659 to 1,646) in fiscal year 2008, while outpatient visits increased .8 percent (from 80,847 to 81,532). In 2007, gross charges for patient services grew 16.0 percent to $87.7 million, due to 6 percent increase in service fees, more complex surgical cases, and growth in outpatient activity. Inpatient admissions increased 0.3 percent in fiscal year 2007, while outpatient visits increased 3.1 percent.
- After accounting for adjustments and discounts under third-party payor programs, primarily Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan, and providing for uncollectible accounts (bad debts), the Center realized an increase in net patient revenue of 9.5 percent to $39.6 million in fiscal year 2008. Net patient revenue growth in 2008 was driven primarily by rehabilitation, diagnostic, and sleep study services. For 2007, the Center realized an increase in net patient revenue of 7.4 percent, from $33.6 million in fiscal year 2006 to $36.1 million.
- Deductions from revenue for third-party discounts and bad debts represented 56.3 percent, 58.8 percent, and 55.5 percent of gross charges in fiscal years 2008, 2007, and 2006, respectively.
- In 2008, other operating revenue increased 7.7 percent to $1,173,000 due to increased office rentals, fitness center fees and rehabilitation contract services. In 2007, other operating revenue decreased 10.4 percent from $1,215,000 in 2006 to $1,090,000 due to less office rentals.

Gross patient charges and other income, as a percent of total for 2006 to 2008, were as follows:

	Percent		
	2008	2007	2006
Inpatient	30	31	30
Outpatient	69	68	68
Other	1	1	2
Total	**100**	**100**	**100**

Operating Expenses

Operating expenses are all costs necessary to provide healthcare services. Significant changes in operating expenses in fiscal years 2008 and 2007 were as follows:

- Salaries increased $695,000, or 4.3 percent in 2008 and $1,859,000, or 12.9 percent in 2007 due to annual cost of living and market adjustments and to additional clinical staffing requirements resulting from outpatient service growth. Also, in 2007 various open positions were staffed, allowing for a decrease in higher-cost contracted labor, and certain physicians were newly employed.
- In 2008, benefit costs increased 7.8 percent due to conversion from a self-insured to fully funded health benefit program. Benefit costs remained stable from 2006 to 2007. Benefit costs as a percentage of total salaries increased from 28.6 percent in 2007 to 29.5 percent in 2008.
- In 2008, supplies increased $369,000 (7.9 percent) and in 2007 supplies increased $482,000 (11.5 percent) due to higher drug costs and surgical supplies.
- In 2008, outside services decreased $634,000 or 10.3 percent, due to less contract labor and mobile service fees. In 2007, outside services increased $604,000, or 10.9 percent due to physician recruiting costs, physician contract services, and mobile MRI and sleep lab service fees.
- In 2008, depreciation and amortization increased $473,000 or 18.9 percent due to completion of the expansion project. In 2007, depreciation and amortization decreased $150,000, or 5.7 percent due to certain diagnostic equipment becoming fully depreciated in 2006.
- In 2008, other operating expenses increased $504,000 or 15.4 percent due to higher utilities, equipment rentals, and insurance costs. In 2007, other operating expenses decreased $467,000, or 12.5 percent due primarily to changes in physician practice support payments.

Operating expenses as a percent of total incurred in fiscal years 2008, 2007, and 2006 were as follows:

	Percent		
	2008	2007	2006
Salaries	43.1	43.3	40.9
Benefits	12.8	12.4	13.2
Supplies	12.8	12.4	11.9
Outside services	14.1	16.5	15.9
Depreciation	7.6	6.7	7.5
Other	9.6	8.7	10.6
Total	**100.0**	**100.0**	**100.0**

Nonoperating Revenues - Net of Expenses

Nonoperating revenues are from other sources and for certain uses that are not primary to the Center's operating activity, consisting primarily of investment earnings (including realized and unrealized gains and losses), offset by interest expense.

Nonoperating revenue, net of related expenses, increased from $163,000 to $380,000 in fiscal year 2007 and to $552,000 in fiscal year 2008.

Contributions to WSHCC

During 2008 and 2007, the Center contributed $1.4 million and $1.3 million to WSHCC to fund operating losses.

Contributions from Foundation

During 2008 and 2007, the Center received $426,500 and $45,000 from the Foundation to fund capital projects.

Contributions Restricted for Capital Assets

Contributions restricted for capital assets relate primarily to gifts pledged or received in support of certain equipment needs.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide relevant information about the Center's sources and uses of cash. The statement of cash flows also helps assess the following:

- The Center's ability to generate future positive cash flows
- Its ability to meet obligations as they come due
- Its ability to invest in capital assets for long-term growth and viability

(in thousands)	2008	2007	Increase (Decrease)
Cash provided by (used in):			
Operating activities	$ 4,097	$ 3,653	$ 444
Capital and related financing activities - Net	(9,628)	2,271	(11,899)
Noncapital financing activities	(1,400)	(1,358)	(42)
Investing activities	6,920	(4,255)	11,175
Net (Decrease) Increase in Cash	(11)	311	(322)
Cash - Beginning of year	1,433	1,122	311
Cash - End of year	**$ 1,422**	**$ 1,433**	**$ (11)**

Cash provided by operating activities in 2008 increased $444,000 from the prior year due primarily to more cash received under interim payment programs from primary payors during 2008. Cash provided by operating activities in 2007 increased by $632,000 primarily caused by reimbursement for services provided to more complex surgical patients and for growth in outpatient activity.

Cash required for capital and debt service, net of contributions from Foundation totaled $8.6 million in 2008. Capital requirements related primarily to completion of the renovation and construction project and to acquisition of diagnostic technologies.

Cash provided from capital and related financing activities of $2.3 million in 2007 resulted primarily from debt proceeds of $10.0 million, net of amounts expended for property and equipment of $7.0 million. Cash expended for property and equipment totaled $5.6 million, $7.0 million, and $2.0 million in 2008, 2007, and 2006, respectively. Debt service payments (principal and interest) totaled $1,183,000, $814,000, and $757,000 in 2008, 2007, and 2006, respectively.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the Center's capital assets totaled $30.9 million, net of accumulated depreciation of $26.8 million. At June 30, 2007, the Center's capital assets totaled $26.7 million, net of accumulated depreciation of $25.5 million. Capital growth in 2008 and 2007 relates primarily to the renovation and construction project completed in fiscal year 2008.

Debt

In April 2001, the Center incurred long-term debt totaling $12.1 million to support a facility expansion and modernization program. During fiscal year 2007, the Center incurred long-term debt totaling $10 million to support facility additions and renovations. Debt outstanding at June 2008 and 2007 totaled $19.4 million and $19.9 million, respectively, of which $550,000 and $525,000, respectively, was short-term in nature. The 2001 debt consisted of adjustable rate (1.75 percent and 3.75 percent at June 30, 2008 and 2007, respectively) tax-exempt revenue bonds, secured by an irrevocable direct-pay letter of credit. The fiscal year 2007 debt has an interest rate fixed for seven years, with initial rates of 4.2 percent on $8.0 million direct purchase bank qualified bonds, 2006 series, and 4.36 percent on $2.0 million direct purchase bank qualified bonds, 2007 series.

In November 2002, the Center entered into an interest rate swap agreement to reduce interest rate risk on a beginning notational amount of $6.0 million, decreasing to $5.0 million by the end of the five-year agreement. The interest rate under the swap agreement was fixed at 2.935 percent for the five-year period ended November 2007.

Refer to Notes 7 and 8 to the financial statements for additional information relating to debt and the interest rate swap agreement, respectively.

Economic Factors That Will Affect the Future

In fiscal year 2008, income from operations totaled $1.6 million due primarily to growth in rehabilitation, high-end diagnostic, and sleep disorder services. Payor mix improved somewhat with a shift from Medicaid and self-pay patients to those with commercial insurance; a reversal of recent trends and opposite expectations considering the relatively high unemployment levels in the state and local community. In addition, overall performance improved with the conversion from a self-insured health benefit to a fully-insured plan for Center associates. In the summer of 2007, several primary care physicians left the community. Those physicians were replaced with an internist, obstetrician, and general surgeon by January 2008. A third pediatrician began her practice in July 2008. The Center continues to recruit for specialities of internal medicine, urology, emergency, and radiology.

In fiscal year 2007, the Center struggled to achieve breakeven from operations, reporting operating losses of $210,000. Losses were caused by a decrease in inpatient admissions of 1.2 percent, partially offset by outpatient growth of just over 3 percent (not reaching historical growth trends). Furthermore, although complex general and orthopaedic surgeries increased during the year, overall activity did not meet expectations. The shortfall in 2007 was due partially to the departure of a key general surgeon and certain primary care physicians and to the inability to recruit a urologist. In addition, reimbursement and collection rates did not meet expectations due to the higher percent of Medicaid and self-pay patients and to anesthesia service adjustments.

The Center is continuing its aggressive physician recruitment initiative. This initiative will require significant investment in physician practice start-up activities and office practice management. By helping to create a larger network of physicians, the Center will enhance local access to quality care and be better positioned to meet the growing healthcare needs of communities served. In addition, the Center has completed its facility expansion project and recently added a $2.2 million, full-service MRI suite. Another $2.5 million is committed for the completion of a clinical and business information technology upgrade. Improvements will enhance patient safety and clinical outcomes, provide for a more healing experience, and create a more positive work environment.

Management believes the Center's future success will be driven by its continued ability to recruit physicians, to grow health services, and to exceed industry-leading outcomes and patient expectations.

Financial Highlights and Overview of Component Units

Component units consist of West Shore Health Centers Corporation (WSHCC) and West Shore Healthcare Foundation (the "Foundation"). The Foundation has operated for several years for the primary purpose of raising funds for the benefit of the Center. Funds are raised primarily through annual events and major capital campaigns. A capital campaign to support the Center's construction and renovation project was initiated in fiscal year 2007 with a goal set at $500,000. Foundation leaders completed the pledge campaign and exceeded the goal during fiscal year 2008. Total gifts and pledges to the Foundation were $495,000 and $175,000 in fiscal years 2008 and 2007, respectively.

Beginning primarily in fiscal year 2007, WSHCC became the owner and operator of various physician practices in the Manistee community. Due to the increase in physician practice activity, net patient service revenues increased from $1.3 million in fiscal year 2007 to $2.3 million in fiscal year 2008 and operating losses increased from $677,000 to $1.4 million during the respective years.

Management is committed to providing local access to certain specialists and related high-end technologies and services. Accordingly, management expects to increase physician employment and practice ownership for the foreseeable future. Physician recruiting efforts, retention programs, and practice support are expected to grow. In addition, improved service delivery models and practice efficiencies are expected to help achieve improved results in future years.

Contacting the Center's Management

This financial report is intended to provide interested parties with a general overview of the Center's financial position and performance. The Center has achieved a strong financial position during difficult economic times for the health services industry in the state of Michigan. Management believes the Center is well positioned to continue to enhance and expand healthcare services for years to come.

If you have any questions about this report or need additional information, please contact the vice president of finance.

Donn Lemmer
Vice President, Finance
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Balance Sheet

	June 30, 2008			June 30, 2007		
	West Shore Medical Center	Component Units	Total	West Shore Medical Center	Component Units	Total
Assets						
Current Assets						
Cash and cash equivalents (Note 2)	$ 1,075,379	$ 3,688	$ 1,079,067	$ 1,099,337	$ 95,683	$ 1,195,020
Investments and assets limited as to use (Notes 2 and 5)	5,015,972	-	5,015,972	12,792,530	-	12,792,530
Accounts receivable (Note 3)	5,341,197	512,374	5,853,571	5,098,128	403,727	5,501,855
Due from West Shore Health Centers Corporation	635,208	-	635,208	577,231	-	577,231
Cost report settlements receivable (Note 4)	885,000	-	885,000	-	-	-
Prepaid expenses	1,317,065	-	1,317,065	524,411	-	524,411
Inventory	1,048,855	-	1,048,855	1,026,905	-	1,026,905
Total current assets	15,318,676	516,062	15,834,738	21,118,542	499,410	21,617,952
Investments and Assets Limited as to Use - Net of current portion (Notes 2 and 5)	11,669,109	130,626	11,799,735	9,608,672	246,530	9,855,202
Capital Assets - Net (Note 6)	30,918,037	144,122	31,062,159	26,656,921	137,069	26,793,990
Other Assets	314,684	-	314,684	338,406	-	338,406
Total assets	**$ 58,220,506**	**$ 790,810**	**$ 59,011,316**	**$ 57,722,541**	**$ 883,009**	**$ 58,605,550**

Balance Sheet (Continued)

	June 30, 2008			June 30, 2007		
	West Shore Medical Center	Component Units	Total	West Shore Medical Center	Component Units	Total
Liabilities and Net Assets						
Current Liabilities						
Current portion of long-term debt (Note 7)	$ 550,000	$ -	$ 550,000	$ 525,000	$ -	$ 525,000
Accounts payable	3,391,010	22,400	3,413,410	4,275,381	18,200	4,293,581
Cost report settlements payable (Note 4)	897,840	-	897,840	1,422,791	-	1,422,791
Due to West Shore Medical Center	-	635,208	635,208	-	577,231	577,231
Accrued liabilities (Note 9)	4,697,480	-	4,697,480	3,445,963	-	3,445,963
Total current liabilities	9,536,330	657,608	10,193,938	9,669,135	595,431	10,264,566
Long-term Debt - Net of current portion (Note 7)	18,860,000	-	18,860,000	19,410,000	-	19,410,000
Deferred Lease Revenue (Note 10)	569,447	-	569,447	591,979	-	591,979
Total liabilities	28,965,777	657,608	29,623,385	29,671,114	595,431	30,266,545
Net Assets						
Invested in capital assets - Net of related debt	11,508,037	144,122	11,652,159	6,721,921	137,069	6,858,990
Restricted:						
Capital asset expenditures	-	108,226	108,226	-	246,530	246,530
Other purposes	105,023	-	105,023	163,282	-	163,282
Unrestricted	17,641,669	(119,146)	17,522,523	21,166,224	(96,021)	21,070,203
Total net assets	29,254,729	133,202	29,387,931	28,051,427	287,578	28,339,005
Total liabilities and net assets	**$ 58,220,506**	**$ 790,810**	**$ 59,011,316**	**$ 57,722,541**	**$ 883,009**	**$ 58,605,550**

See Notes to Financial Statements.

Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)

	Year Ended June 30, 2008			Year Ended June 30, 2007		
	West Shore Medical Center	Component Units	Total	West Shore Medical Center	Component Units	Total
Operating Revenue						
Net patient service revenue	$ 39,595,652	$ 2,256,025	$ 41,851,677	$ 36,149,039	$ 1,330,559	$ 37,479,598
Other	1,173,172	-	1,173,172	1,089,010	-	1,089,010
Total operating revenue	40,768,824	2,256,025	43,024,849	37,238,049	1,330,559	38,568,608
Operating Expenses						
Salaries	16,912,011	2,239,102	19,151,113	16,217,430	1,138,520	17,355,950
Benefits	4,992,704	232,389	5,225,093	4,634,000	81,709	4,715,709
Supplies	5,027,761	132,922	5,160,683	4,659,006	76,055	4,735,061
Professional fees and outside services	5,527,578	690,075	6,217,653	6,161,997	407,693	6,569,690
Depreciation and amortization	2,969,155	20,881	2,990,036	2,495,876	13,523	2,509,399
Other	3,783,182	374,928	4,158,110	3,279,389	290,043	3,569,432
Total operating expenses	39,212,391	3,690,297	42,902,688	37,447,698	2,007,543	39,455,241
Operating Income (Loss)	1,556,433	(1,434,272)	122,161	(209,649)	(676,984)	(886,633)
Nonoperating Income - Net (Note 14)	551,577	4,780	556,357	379,667	4,211	383,878
Excess of Revenue Over (Under) Expenses	2,108,010	(1,429,492)	678,518	170,018	(672,773)	(502,755)
Contribution to West Shore Health Centers Corporation	(1,400,000)	1,400,000	-	(1,358,222)	1,358,222	-
Contribution from West Shore Healthcare Foundation	426,500	(426,500)	-	45,000	(45,000)	-
Contributions - Restricted for scholarships and capital assets	68,792	301,616	370,408	87,194	175,341	262,535
Increase (Decrease) in Net Assets	1,203,302	(154,376)	1,048,926	(1,056,010)	815,790	(240,220)
Net Assets (Deficit) - Beginning of year	28,051,427	287,578	28,339,005	29,107,437	(528,212)	28,579,225
Net Assets - End of year	$ 29,254,729	$ 133,202	$ 29,387,931	$ 28,051,427	$ 287,578	$ 28,339,005

See Notes to Financial Statements.

Statement of Cash Flows

	Year Ended June 30, 2008			Year Ended June 30, 2007		
	West Shore Medical Center	Component Units	Total	West Shore Medical Center	Component Units	Total
Cash Flows from Operating and Nonoperating Activities						
Cash received from patients and third-party payors	$ 39,442,583	$ 2,147,378	$ 41,589,961	$ 35,829,753	$ 808,170	$ 36,637,923
Cash payments to suppliers and employees	(36,550,895)	(3,642,896)	(40,193,791)	(33,265,670)	(1,994,279)	(35,259,949)
Other receipts from operations	1,204,989	-	1,204,989	1,089,010	-	1,089,010
Net cash provided by (used in) operating activities	4,096,677	(1,495,518)	2,601,159	3,653,093	(1,186,109)	2,466,984
Cash Flows from Noncapital Financing Activities - Noncapital contributions	(1,400,000)	1,400,000	-	(1,358,222)	1,358,222	-
Cash Flows from Investing Activities						
Purchase of investments	(4,784,707)	-	(4,784,707)	(13,033,349)	-	(13,033,349)
Proceeds from sale and maturities of investments	10,500,828	-	10,500,828	7,904,546	-	7,904,546
Interest received on investments	987,920	4,780	992,700	796,357	4,211	800,568
Other investing activities	215,961	-	215,961	77,317	(40,022)	37,295
Net cash provided by (used in) investing activities	6,920,002	4,780	6,924,782	(4,255,129)	(35,811)	(4,290,940)
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	(8,994,398)	(27,934)	(9,022,332)	(7,010,939)	(67,377)	(7,078,316)
Proceeds from sale of capital assets	54,270	-	54,270	8,496	-	8,496
Restricted contributions received for capital assets	68,792	301,616	370,408	87,194	175,341	262,535
Interest paid on long-term debt	(658,223)	-	(658,223)	(239,337)	-	(239,337)
Proceeds from long-term debt	-	-	-	10,000,000	-	10,000,000
Principal paid on long-term debt	(525,000)	-	(525,000)	(575,000)	-	(575,000)
Debt issue costs	-	-	-	(44,134)	-	(44,134)
Contribution to Center	426,500	(426,500)	-	45,000	(45,000)	-
Net cash (used in) provided by capital and related financing activities	(9,628,059)	(152,818)	(9,780,877)	2,271,280	62,964	2,334,244
Net (Decrease) Increase in Cash and Cash Equivalents	(11,380)	(243,556)	(254,936)	311,022	199,266	510,288
Cash and Cash Equivalents - Beginning of year	1,432,671	315,370	1,748,041	1,121,649	116,104	1,237,753
Cash and Cash Equivalents - End of year	$ **1,421,291**	$ **71,814**	$ **1,493,105**	$ **1,432,671**	$ **315,370**	$ **1,748,041**

See Notes to Financial Statements.

Statement of Cash Flows (Continued)

	Year Ended June 30, 2008			Year Ended June 30, 2007		
	West Shore Medical Center	Component Units	Total	West Shore Medical Center	Component Units	Total
Balance Sheet Classification of Cash						
General Fund - Cash and cash equivalents	$ 1,075,379	$ 3,688	$ 1,079,067	$ 1,099,337	$ 95,683	$ 1,195,020
Restricted funds and assets limited as to use - Cash and cash equivalents	345,912	68,126	414,038	333,334	219,687	553,021
Total	**$ 1,421,291**	**$ 71,814**	**$ 1,493,105**	**$ 1,432,671**	**$ 315,370**	**$ 1,748,041**
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities						
Operating income (loss)	$ 1,556,433	$ (1,434,272)	$ 122,161	$ (209,649)	$ (676,984)	$ (886,633)
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	2,969,155	20,881	2,990,036	2,495,876	13,523	2,509,399
Provision for bad debts	2,407,049	-	2,407,049	2,928,934	93,425	3,022,359
Loss on sale of assets	31,817	-	31,817	-	-	-
Changes in assets and liabilities:						
Accounts receivable	(2,560,118)	(108,647)	(2,668,765)	(3,648,220)	(427,294)	(4,075,514)
Cost report settlements receivable	(897,840)	-	(897,840)	400,000	-	400,000
Inventory	(21,950)	-	(21,950)	(38,743)	-	(38,743)
Prepaid expenses	(422,824)	-	(422,824)	107,591	-	107,591
Accounts payable	817,391	4,200	821,591	466,897	18,200	485,097
Cost report settlements payable	(602,111)	-	(602,111)	410,637	-	410,637
Accrued liabilities	900,184	-	900,184	147,791	(206,979)	(59,188)
Deferred lease revenue	(22,532)	-	(22,532)	591,979	-	591,979
Due from West Shore Health Centers Corporation	(57,977)	57,977	-	-	-	-
Pledges receivable	-	(35,657)	(35,657)	-	-	-
Net cash provided by (used in) operating activities	**$ 4,096,677**	**$ (1,495,518)**	**$ 2,601,159**	**$ 3,653,093**	**$ (1,186,109)**	**$ 2,466,984**
Supplemental Cash Flow Information - Construction payable for capital asset additions	**$ 1,701,762**	**$ -**	**$ 1,701,762**	**$ 2,104,864**	**$ -**	**$ 2,104,864**

See Notes to Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - West Shore Medical Center (the "Center") operates as a short-term, acute-care facility offering inpatient and outpatient healthcare services primarily to citizens of northwest Michigan. The Center was organized and operates in accordance with Public Act 230 (County Health Facilities Corporate Act) of the State of Michigan Statutes of 1987. The Center is governed by a board of trustees, which is empowered to do all things necessary for the proper operation of the Center. The Board of Commissioners of the County of Manistee appoints the board of trustee members; however, the County of Manistee is not including the Center as a discretely presented component unit in the basic financial statements of the County. The accompanying financial statements present the Center and its component units, entities for which the Center is considered to be financially accountable.

Discretely Presented Component Units - The following component units are reported within the component units column in the balance sheet, statement of revenue, expense, and changes in net assets (deficit), and statement of cash flows. They are reported in a separate column to emphasize that they are legally separate from the Center. The Center is financially accountable for two related entities: West Shore Health Centers Corporation (the "Corporation") and West Shore Healthcare Foundation (the "Foundation"). The Corporation maintains and operates healthcare clinics and various physician offices in the surrounding area. The Foundation was established to solicit contributions from the general public solely for the funding of capital asset acquisitions of the Center. Funds are distributed to the Center as determined by the Foundation's board of trustees. Separate financial statements for the component units are not available (see Note 16 for supplemental information).

Basis of Presentation - The financial statements include the accounts of West Shore Medical Center and its component units, West Shore Health Centers Corporation and West Shore Healthcare Foundation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Center follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provide a comprehensive look at the Center's financial activities. The Center has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Proprietary Fund Accounting - The Center utilizes proprietary fund accounting whereby revenue and expenses are recognized on the full accrual basis. Substantially all revenue and expenses are subject to accrual.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Cash and Cash Equivalents - The Center considers all liquid investments purchased with an original maturity date of three months or less to be cash and cash equivalents.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. An allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Investments - Investments are stated at fair market value. Investment income or loss, including realized and unrealized gains and losses on investments and interest, is included in nonoperating income unless the income or loss is restricted by donor or law.

Inventory - Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market. Inventoriable items include dietary, pharmacy, laboratory, surgical, and patient billable supplies.

Capital Assets - Capital asset acquisitions consisting of property and equipment are recorded at cost. Donations of capital assets are stated at fair market value at date of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Contributions - The Center and Foundation routinely receives contributions from individuals and private organizations. Revenues from these sources (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Contributions without restrictions are reported as nonoperating income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Assets - Net assets of the Center are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Center. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets net of related debt or restricted net assets.

Operating Revenue and Expenses - The statement of revenue, expenses, and changes in net assets (deficit) distinguishes between operating and nonoperating revenue and expenses. Operating revenue results from transactions associated with providing healthcare services - the Center's principal activity. Nonoperating revenue, including investment income and interest expense are reported as nonoperating income. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined (see Note 4).

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and management believes it is in compliance with these laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Pension Plans - The Center has four noncontributory, trustee-defined contribution pension plans covering substantially all employees. The Center's policy is to fund pension cost as participants qualify for contributions (see Note 11). The Center also offers a deferred compensation plan under Section 457 of the Internal Revenue Code to employees who wish to participate.

Professional Liability Insurance - The Center accrues the estimated ultimate expense, including litigation and settlement expense, for the reported incidents of alleged medical malpractice occurring during the year, as well as the estimated cost of those claims that have not been reported to the insurance carrier at year end (see Note 12).

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Charity Care - The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as operating revenue. Charity care for the years ended June 30, 2008 and 2007 totaled approximately $823,000 and $588,000, respectively.

Tax Status - The Center and component units are tax-exempt under the Internal Revenue Code; accordingly, no tax provision is reflected in the financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Reclassification - Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Center has designated National City Bank, Union Bank of California, and Baird Investments for the deposit of its funds. The Center's investment policy has authorized investment vehicles under state statutory authority as listed above. The Center's deposits and investment policy are in accordance with statutory authority.

Note 2 - Deposits and Investments (Continued)

The Center's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Center's deposits may not be returned to it. The Center does not have a specific deposit policy for custodial credit risk of bank deposits. At June 30, 2008 and 2007, the Center's deposit balances of $2,123,510 and $2,304,402 had $2,023,510 and $2,004,402 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The component units' deposit balances of $68,126 and $165,817 had no bank deposits that were uninsured and uncollateralized. The Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Center evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Center's investment policy does not restrict investment maturities. The Center's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturities in accordance with the Center's cash requirements.

At June 30, 2008, the average maturities of investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. agencies	$ 10,494,186	5.08
U.S Treasury notes	981,865	5.7
Mutual funds	4,178,644	-
Money market funds	586,625	-
Total fair value	$ 16,241,320	

Note 2 - Deposits and Investments (Continued)

At June 30, 2007, the average maturities of investments were as follows:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. agencies	$ 6,116,168	5.31
U.S. Tresury notes	623,295	5.95
Mutual funds	9,390,824	-
Money market funds	5,846,194	-
Total fair value	$ 21,976,481	

Credit Risk - Credit risk is the risk that an insurer to an investment will not fulfill its obligations. The Center's investments are governed and limited by Public Act 20 of the Michigan Public Acts of 1943. The Center's investment policy has been designed and approved to comply with this requirement.

At June 30, 2008, the credit quality ratings by investment type were as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. agencies	$10,494,186	Aaa	Moody's
U.S. Treasury notes	981,865	Aaa	Moody's

At June 30, 2007, the credit quality ratings by investment type were as follows:

Investment	Fair Value	Rating	Rating Organization
U.S. agencies	$ 6,739,463	Aaa	Moody's

Note 3 - Accounts Receivable

The details of accounts receivable are set forth below at June 30:

	Center	
	2008	2007
Patient accounts receivable	$ 14,012,308	$ 14,643,336
Less:		
Allowance for uncollectible accounts	(1,951,814)	(1,795,985)
Allowance for contractual adjustments	(7,178,287)	(8,135,076)
Total patient accounts receivable	4,882,207	4,712,275
Other	458,990	385,853
Total accounts receivable	$ 5,341,197	$ 5,098,128

	Component Units	
	2008	2007
Patient accounts receivable	$ 1,099,769	$ 845,293
Less allowance for contractual adjustments	(587,395)	(441,566)
Total accounts receivable	$ 512,374	$ 403,727

The Center is located in Manistee, Michigan. The Center grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors for the Center and component units is as follows:

	Percent	
	2008	2007
Medicare	37	35
Blue Cross/Blue Shield of Michigan	16	15
Medicaid	10	10
Commercial insurance	7	14
Self-pay	30	26
Total	100	100

Note 4 - Cost Report Settlements

The Center has agreements with major payors that provide for reimbursement at amounts different from its established rates. A summary of the basis of reimbursement is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services, including ambulatory surgery, outpatient radiology, and other diagnostic-related services, are reimbursed on a prospectively determined ambulatory payment classification system. Physical therapy, outpatient, laboratory, and physician services are reimbursed on a fee-for-service methodology.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Inpatient capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology or ambulatory payment classification system.
- **Blue Cross/Blue Shield of Michigan** - All services rendered to Blue Cross/Blue Shield of Michigan subscribers are reimbursed based on a percentage of Center charges.

Cost report settlements receivable and payable result from the adjustment of interim payments to final reimbursement under these programs, and are subject to audit by each responsible intermediary. Although these audits may result in some changes to these estimated amounts, they are not expected to have a material effect on the accompanying financial statements.

Note 5 - Investments and Assets Limited as to Use

The details of investments and assets limited as to use for the years ended June 30, 2008 and 2007 are detailed below. The composition of investments is detailed in Note 2.

	2008	2007
Assets limited as to use:		
Designated by the board for:		
Payment of potential professional liability claims - Cash and cash equivalents	$ 166,000	$ 166,000
Endowments - Cash and cash equivalents	90,588	81,896
Scholarship loans	87,849	81,387
Other - Cash and cash equivalents	89,324	85,438
Funds restricted under bond indentures - Money market savings	186,657	5,335,760
Total assets limited as to use	620,418	5,750,481
Unrestricted investments:		
Investments	16,054,663	16,640,721
Other	10,000	10,000
Total investments and assets limited as to use	16,685,081	22,401,202
Less current portion of short-term investments	(5,015,972)	(12,792,530)
Total long-term investments and assets limited as to use	$ 11,669,109	$ 9,608,672

Details of the component units' investments and assets limited as to use are as follows:

	2008	2007
Restricted by Foundation for:		
Building expansion and renovations - Cash and cash equivalents	$ 68,126	$ 219,687
Building expansion and renovations - Contributions receivable	62,500	26,843
Total assets limited as to use	$ 130,626	$ 246,530

Note 6 - Capital Assets

Capital asset activity for the Center for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Transfers	Retirements	June 30, 2008	Depreciable Life - Years
Land	$ 75,000	$ -	$ -	$ -	$ 75,000	-
Land improvements	804,356	-	-	-	804,356	10 - 20
Building and improvements	21,540,585	200,713	9,649,961	(4,065)	31,387,194	10 - 40
Equipment and furnishings	22,453,003	1,076,038	3,113,359	(1,737,691)	24,904,709	3 - 20
Construction in progress	7,340,519	6,015,885	(12,763,320)	-	593,084	-
Total	52,213,463	7,292,636	-	(1,741,756)	57,764,343	
Less accumulated depreciation:						
Land improvements	609,448	44,554	-	-	654,002	
Building and improvements	8,579,491	1,565,236	-	-	10,144,727	
Equipment and furnishings	16,367,603	1,357,739	-	(1,677,765)	16,047,577	
Total	25,556,542	2,967,529	-	(1,677,765)	26,846,306	
Net carrying amount	$ 26,656,921	$ 4,325,107	$ -	$ (63,991)	$ 30,918,037	

Capital asset activity for the component units for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Transfers	Retirements	June 30, 2008	Depreciable Life - Years
Land	$ 16,192	$ -	$ -	$ -	$ 16,192	-
Building and improvements	70,792	-	-	-	70,792	10 - 40
Equipment and furnishings	95,707	27,934	-	-	123,641	3 - 20
Total	182,691	27,934	-	-	210,625	
Less accumulated depreciation:						
Building and improvements	15,022	3,106	-	-	18,128	
Equipment and furnishings	30,600	17,775	-	-	48,375	
Total	45,622	20,881	-	-	66,503	
Net carrying amount	$ 137,069	$ 7,053	$ -	$ -	$ 144,122	

Note 6 - Capital Assets (Continued)

Capital asset activity for the Center for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Transfers	Retirements	June 30, 2007	Depreciable Life - Years
Land	$ 75,000	$ -	$ -	$ -	$ 75,000	-
Land improvements	797,803	6,553	-	-	804,356	10 - 20
Building and improvements	20,749,854	429,277	380,851	(19,397)	21,540,585	10 - 40
Equipment and furnishings	21,420,851	1,406,373	259,108	(633,329)	22,453,003	3 - 20
Construction in progress	706,878	7,273,600	(639,959)	-	7,340,519	-
Total	43,750,386	9,115,803	-	(652,726)	52,213,463	
Less accumulated depreciation:						
Land improvements	562,175	47,273	-	-	609,448	
Building and improvements	7,467,845	1,122,546	-	(10,900)	8,579,491	
Equipment and furnishings	15,679,044	1,321,889	-	(633,330)	16,367,603	
Total	23,709,064	2,491,708	-	(644,230)	25,556,542	
Net carrying amount	$ 20,041,322	$ 6,624,095	$ -	$ (8,496)	$ 26,656,921	

Capital asset activity for the component units for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Transfers	Retirements	June 30, 2007	Depreciable Life - Years
Land	$ 16,192	$ -	$ -	$ -	$ 16,192	-
Building and improvements	70,792	-	-	-	70,792	10 - 40
Equipment and furnishings	28,330	67,377	-	-	95,707	3 - 20
Total	115,314	67,377	-	-	182,691	
Less accumulated depreciation:						
Building and improvements	11,916	3,106	-	-	15,022	
Equipment and furnishings	20,183	10,417	-	-	30,600	
Total	32,099	13,523	-	-	45,622	
Net carrying amount	$ 83,215	$ 53,854	$ -	$ -	$ 137,069	

Construction in progress at June 30, 2008 represents costs incurred for implementation of new technology systems. Commitments related to this project approximate $1,064,000. Construction in progress at June 30, 2007 represented costs incurred for a significant renovation and expansion project. This project was completed during fiscal year 2008. Remaining construction in progress relates to normal capital additions funded through operations.

Note 7 - Long-term Debt

Long-term debt for the years ended June 30, 2008 and 2007 was as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008	Current Portion
Adjustable Rate Demand Bonds - 2001 Series	$ 9,935,000	$ -	$ (510,000)	$ 9,425,000	$ 535,000
Direct Purchase Bank Qualified Bonds - 2006 Series	8,000,000	-	-	8,000,000	-
Direct Purchase Bank Qualified Bonds - 2007 Series	2,000,000	-	(15,000)	1,985,000	15,000
Total	$ 19,935,000	$ -	$ (525,000)	$ 19,410,000	$ 550,000

	July 1, 2006	Additions	Reductions	June 30, 2007	Current Portion
Adjustable Rate Demand Bonds - 2001 Series	$ 10,510,000	$ -	$ (575,000)	$ 9,935,000	$ 510,000
Direct Purchase Bank Qualified Bonds - 2006 Series	-	8,000,000	-	8,000,000	-
Direct Purchase Bank Qualified Bonds - 2007 Series	-	2,000,000	-	2,000,000	15,000
Total	$ 10,510,000	$ 10,000,000	$ (575,000)	$ 19,935,000	$ 525,000

Adjustable Rate Demand Bonds, Series 2001, issued by the Center mature on April 1, 2022 and have a variable interest rate established on a weekly basis. The effective interest rate was 1.75 percent and 3.75 percent at June 30, 2008 and 2007, respectively. The bonds require annual payments ranging from $535,000 to $825,000 through April 1, 2022. The Series 2001 Bonds are secured by an irrevocable direct-pay letter of credit which expires in April 2011. The bonds are subject to mandatory redemption upon the expiration or termination of the letter of credit unless the existing letter of credit has been extended or an alternate letter of credit has been issued. The Series 2001 Bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds and notes based on its best efforts, the bonds and notes would be "put" back to the trustee, who would draw down on the letter of credit to pay down the Series 2001 Bonds. Any draws on the letter of credit must be repaid at the expiration date of the letter of credit.

Note 7 - Long-term Debt (Continued)

Direct Purchase Bank Qualified Bonds, Series 2006 and Series 2007, issued by the Center to finance a renovation and construction project mature on April 1, 2031 and have a seven-year adjustable rate. The initial effective interest rate is 4.2 percent for the Series 2006 Bonds and 4.36 percent for the Series 2007 bonds. The Series 2006 Bonds require annual payments starting on April 1, 2023 ranging from $745,000 to $1,050,000 through April 1, 2031. The Series 2007 Bonds require annual payments starting on April 1, 2008 ranging from $15,000 to $220,000 through April 1, 2031. The bonds are secured by the net revenue of the Center. The Series 2006 and 2007 bonds were purchased by a bank, which in turn issued a term loan agreement to the Center under the same terms as the bonds.

In conjunction with the irrevocable direct-pay letter of credit and related agreements (issued in conjunction with the Series 2001 Bonds) and the term loan agreements (issued in conjunction with the Series 2006 and 2007 Bonds), the Center has agreed to certain quarterly and annual reporting requirements, certain financial covenants, and various other operational covenants.

A schedule of the principal and estimated interest payments on long-term debt at June 30, 2008 is as follows:

	Bonds Payable	Estimated Interest
2009	$ 550,000	$ 765,076
2010	570,000	746,149
2011	590,000	726,016
2012	610,000	706,919
2013	635,000	683,271
2014-2018	3,510,000	3,067,861
2019-2023	4,180,000	2,398,156
2024-2028	5,115,000	1,461,870
2029-2031	3,650,000	299,000
Total payments	$ 19,410,000	$ 10,854,318

Note 8 - Interest Rate Swap Agreement

For the years ended June 30, 2003 through November 15, 2007, the Center maintained an interest rate swap agreement related to its Series 2001 Bonds to reduce the impact of changes in the interest rate on its variable rate long-term debt. The effect of the swap was to effectively change the Center's variable interest rate on bonds to a synthetic fixed rate of 2.935 percent through November 15, 2007. Due to increasing interest rates at June 30, 2007, the swap had a positive fair value of approximately $19,000. Since the fair value of the swap was positive, the Center was exposed to credit risk in the amount of the interest rate swap's fair value. The swap's counterparty was rated AA3 by Moody's, A+ by Standard and Poor's, and AA- by Fitch.

Note 9 - Accrued Liabilities

The detail of accrued liabilities of the Center is given below:

	2008	2007
Payroll and related amounts	$ 683,922	$ 658,983
Pension	1,393,838	468,064
Compensated absences	1,881,313	1,607,610
Professional liability and health insurance claims	250,015	574,247
Other	488,392	137,059
Total accrued liabilities	$ 4,697,480	$ 3,445,963

Compensated absences represent the estimated liability to be paid to employees under the Center's sick and vacation policy. Under the Center's policy, employees earn sick and vacation time based on length of service with the Center.

Note 10 - Lease with Community College

During 2007, the Center entered into a leasing arrangement with West Shore Community College to lease a portion of its facilities known as the West Shore Education Center. In accordance with the terms of the lease, which expires in 2033, the College prepaid its rent in the amount of $614,511 during the year ended June 30, 2007. This amount is being recognized as revenue over the term of the lease.

The lease agreement provides for lease termination by either party with one year's written notice. Upon termination, as detailed in the lease agreement, a portion of the rental income received by the Center will be returned to the College, and any remaining deferred amounts will be recognized as revenue immediately by the Center. As of June 30, 2008, neither party has elected to terminate the leasing arrangement.

Note 11 - Pension

The Center provides benefits through four participant-directed defined contribution plans to substantially all employees who accumulate at least 1,000 hours of service per year. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Generally, employees are eligible to participate after one year of service and the attainment of age 21. The Center's contributions for each employee plus net investment income and interest allocated to each employee's account are fully vested in periods ranging from 5 years to 10 years of continuous service. The Center's contributions for, and interest forfeited by, employees who leave employment prior to being fully vested are used to reduce the Center's current-period contribution requirement. Pension expense, net of forfeitures, to the plans for the years ended June 30, 2008 and 2007 totaled approximately $924,000 and $852,000, respectively.

Note 12 - Risk Management

The Center is exposed to various risks of loss related to property loss, torts, professional liability, errors and omissions, and employee injuries. The Center has purchased commercial insurance for the various risks described above. Medical benefits provided to employees were paid directly by the Center through December 31, 2007. Effective February 1, 2008, workers' compensation became self-funded with excess coverage at statutory amounts. To assist in reducing the Center's exposure to large specific cases, the Center has purchased excess insurance contracts which permit the recovery of a portion of the losses in excess of amounts detailed in the excess insurance contract. Settled claims relating to commercial insurance have not exceeded the amount of insurance in any of the past three years.

The Center is insured against potential professional and general liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Center must pay a deductible toward the costs of litigation or settling any asserted claims. In addition, the Center bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year. At June 30, 2008 and 2007, the Center has made a provision for the estimated loss in connection with those professional liability claims for incidents occurring during the year for which an amount can be reasonably estimated, including a provision for claims incurred but not reported at year end.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, may be uninsured if the Center does not purchase prepaid tail coverage.

Note 13 - Operating Leases

The Center is obligated under certain operating leases, primarily for medical equipment. Total rent expense under these leases was approximately $460,000 and $310,000 for the years ended June 30, 2008 and 2007, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending June 30		Amount
2009		$ 463,296
2010		380,620
2011		373,104
2012		155,460
	Total	$ 1,372,480

Note 14 - Nonoperating Income and Expenses

The details of nonoperating income are shown below for the Center:

	2008	2007
Interest income	$ 987,920	$ 796,357
Net unrealized and realized gains (losses) on investments	203,383	(74,755)
Interest expense	(639,726)	(341,935)
Total	$ 551,577	$ 379,667

The details of nonoperating income are shown below for the component units:

	2008	2007
Interest income	$ 4,780	$ 4,211

Note 15 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	2008		2007	
	Center	Component Units	Center	Component Units
Patient revenue:				
Inpatient	$ 26,278,483	$ -	$ 27,654,940	$ -
Outpatient	64,334,144	5,321,386	60,040,322	2,612,687
Total patient revenue	90,612,627	5,321,386	87,695,262	2,612,687
Revenue deductions:				
Provision for third-party payors	48,609,926	3,065,361	48,617,289	1,188,703
Provision for uncollectible accounts	2,407,049	-	2,928,934	93,425
Total revenue deductions	51,016,975	3,065,361	51,546,223	1,282,128
Total	$ 39,595,652	$ 2,256,025	$ 36,149,039	$ 1,330,559

Note 16 - Component Unit Information

Condensed financial information by individual component unit is as follows:

	2008			2007		
	West Shore Health Centers Corporation	West Shore Healthcare Foundation	Total	West Shore Health Centers Corporation	West Shore Healthcare Foundation	Total
Assets						
Current assets	$ 516,062	$ -	$ 516,062	$ 499,410	$ -	$ 499,410
Assets limited as to use	-	130,626	130,626	-	246,530	246,530
Property and equipment	144,122	-	144,122	137,069	-	137,069
Total assets	$ 660,184	$ 130,626	$ 790,810	$ 636,479	$ 246,530	$ 883,009
Liabilities - Current liabilities	$ 635,208	$ 22,400	$ 657,608	$ 577,231	$ 18,200	$ 595,431
Net Assets						
Invested in capital assets - Net of related debt	144,122	-	144,122	137,069	-	137,069
Restricted - Capital asset expenditures	-	108,226	108,226	18,200	228,330	246,530
Unrestricted	(119,146)	-	(119,146)	(96,021)	-	(96,021)
Total net assets	24,976	108,226	133,202	59,248	228,330	287,578
Total liabilities and net assets	$ 660,184	$ 130,626	$ 790,810	$ 636,479	$ 246,530	$ 883,009

Note 16 - Component Unit Information (Continued)

	2008			2007		
	West Shore Health Centers Corporation	West Shore Healthcare Foundation	Total	West Shore Health Centers Corporation	West Shore Health Centers Corporation	Total
Operating Revenue	$ 2,256,025	$ -	$ 2,256,025	$ 1,330,559	$ -	$ 1,330,559
Operating Expenses	3,690,297	-	3,690,297	2,007,543	-	2,007,543
Loss from Operations	(1,434,272)	-	(1,434,272)	(676,984)	-	(676,984)
Nonoperating Income - Net	-	4,780	4,780	-	4,211	4,211
Contribution to WSHCC	1,400,000	-	1,400,000	1,358,222	-	1,358,222
Contribution to Center	-	(426,500)	(426,500)	-	(45,000)	(45,000)
Restricted Contributions	-	301,616	301,616	-	175,341	175,341
(Decrease) Increase in Net Assets	$ (34,272)	$ (120,104)	$ (154,376)	$ 681,238	$ 134,552	$ 815,790